

STEEL AND PIPE

JAN 24 1961

ANNUAL REPORT 1960

INTERPROVINCIAL
STEEL
AND
PIPE
CORPORATION
LTD.

DIRECTORS

D. R. Annett
J. A. Cameron
C. E. Chesher
J. S. Davidson
C. S. Edy
G. T. Haig
C. G. King
J. V. King
R. A. Kramer
H. A. Martin
M. A. MacPherson

C. S. McLeod
C. O. Nickle
G. P. Osler
J. W. Sharp
F. E. Shaw
G. C. Solomon
J. B. Sangster
D. D. Tansley
J. N. Turvey
N. E. Whitmore

OFFICERS

M. A. MacPherson.....*Chairman of the Board*
J. W. Sharp.....*President*
G. C. Solomon.....*Vice-President*
J. N. Turvey.....*Secretary-Treasurer*
J. A. Cameron.....*General Manager - Pipe Division*
G. T. Haig.....*General Manager - Steel Division*
J. D. MacLennan.....*Comptroller*

REGISTRAR AND TRANSFER AGENTS

Common Shares.....
First Mortgage Serial Bonds.....
First Mortgage Sinking Fund Bonds.....
First Mortgage Bonds.....
Unsecured Notes.....
Convertible Debentures.....

}.....Montreal Trust Company

.....Canada Trust Company

OFFICES

Head Office and Plant Location:
Pipe Division — P.O. Box 226 — Armour Siding, Regina
Steel Division — P.O. Box 1670 — Armour Siding, Regina

Sales Offices:
Regina — Head Office
Calgary — 601 Petro Chemical Building
Vancouver — 904 Hall Building

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

4TH

**ANNUAL
REPORT**

FOR THE YEAR ENDED AUGUST 31, 1960

HIGHLIGHTS OF THE YEAR

- The first seven-ton steel ingot produced in Western Canada was poured April 15, 1960. The melt shop is now in full production, operating 24 hours per day, 7 days a week.
- The first steel plate produced in Western Canada was rolled October 15, 1960. The rolling mill is now on a production basis producing a full range of hot rolled carbon steel plate, skelp, sheet and strip.
- The export of natural gas to the United States received final approval in September, 1960. This program of large diameter pipeline construction over the next three years represents a market in Western Canada for 376,000 tons of pipe equivalent to a dollar sales volume of over \$100,000,000. Your company will participate in this market through the supply of plate to Big Inch Pipe Corporation Ltd. in Calgary.
- The gas export program will result in increased demand for small diameter pipe used in field gathering lines and in gas scrubbing plants. Many deferred projects will now be undertaken as a result of the export of natural gas to the United States.
- During the year under review, the fixed asset investment in the company increased to a total of \$18,299,088. This was due to the purchase of the steel mill assets.
- Due to the rapidly expanding market in Western Canada for steel plate, your company has undertaken an expansion program to increase its steel production capacity by 50% and to increase the range of steel products to be manufactured. This expansion will add an additional 9% to the cost of the fixed assets of the steel division. This small percentage investment to achieve such a large percentage increase in capacity is possible due to the design of the original plant facilities.

DIRECTORS REPORT

TO THE SHAREHOLDERS

The Board of Directors presents herewith the Fourth Annual Report of your Company for the year ended August 31, 1960, together with the Financial Statements and your Auditors' Report.

During the year the name of your Company was changed from Prairie Pipe Manufacturing Company Ltd. to Interprovincial Steel and Pipe Corporation Ltd. in accordance with the resolution passed at your last annual meeting. The Company is now operating under the new name with two divisions, namely: the Prairie Pipe Division and the Steel Division.

PLANT CONSTRUCTION

The construction program undertaken in October, 1958, for the construction of the steel mill, which is located adjacent to the pipe mill, is now complete. Major items of plant and equipment at the steel mill include the following:

Land —180 acres, located 4 miles north of Regina, Canada.

Building —185,000 square feet plus offices and laboratory.

Equipment—Two 32-ton electric melt furnaces;

Five dry bottom soaking pits;

A 45" x 114" 2-Hi reversing high lift slabbing and plate mill driven by a 6500 H.P., D.C. motor;

A 29½" x 49" x 77" 4 Hi reversing hot finishing mill with furnace coilers, driven by a 5000 H.P., D.C. motor;

Auxiliary equipment including shears, coilers, slitter, leveller, roll lathe and grinder.

The equipment has now been taken over from the contractor, initial test runs completed and the company is now in production of finished steel products, including hot rolled carbon steel plate, skelp, sheet and strip.

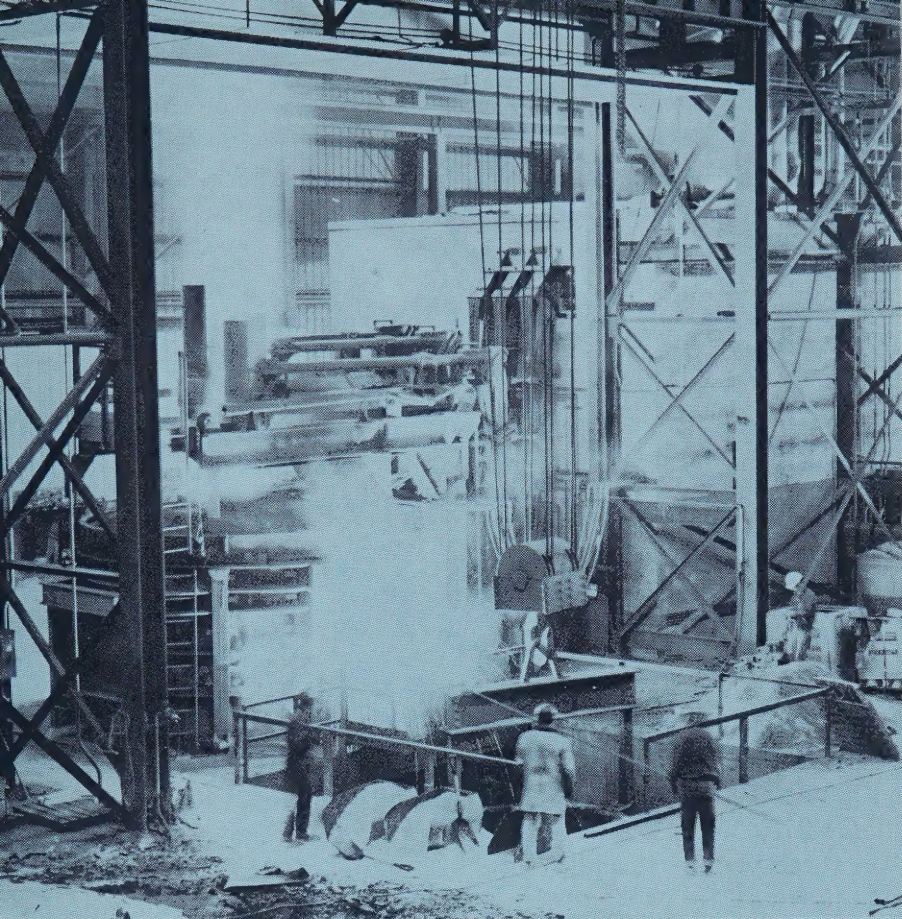
The mill has a rated capacity of 100,000 tons of finished product per annum which is determined by the capacity of the two electric furnaces. The rolling mills, however, have a capacity to produce approximately 500,000 tons annually. The steel division fixed assets, at a cost of \$15,759,660 represent a low investment in relation to mill capacity. This is equivalent to \$157.59 per ton of capacity. On completion of the expansion to the melt shop, in 1961, the capacity of the mill will be increased by 50% to 150,000 tons per annum. Therefore, with a comparatively small additional investment in fixed assets, the steel plant can readily keep pace with the anticipated growth in Western Markets.

PRODUCTION

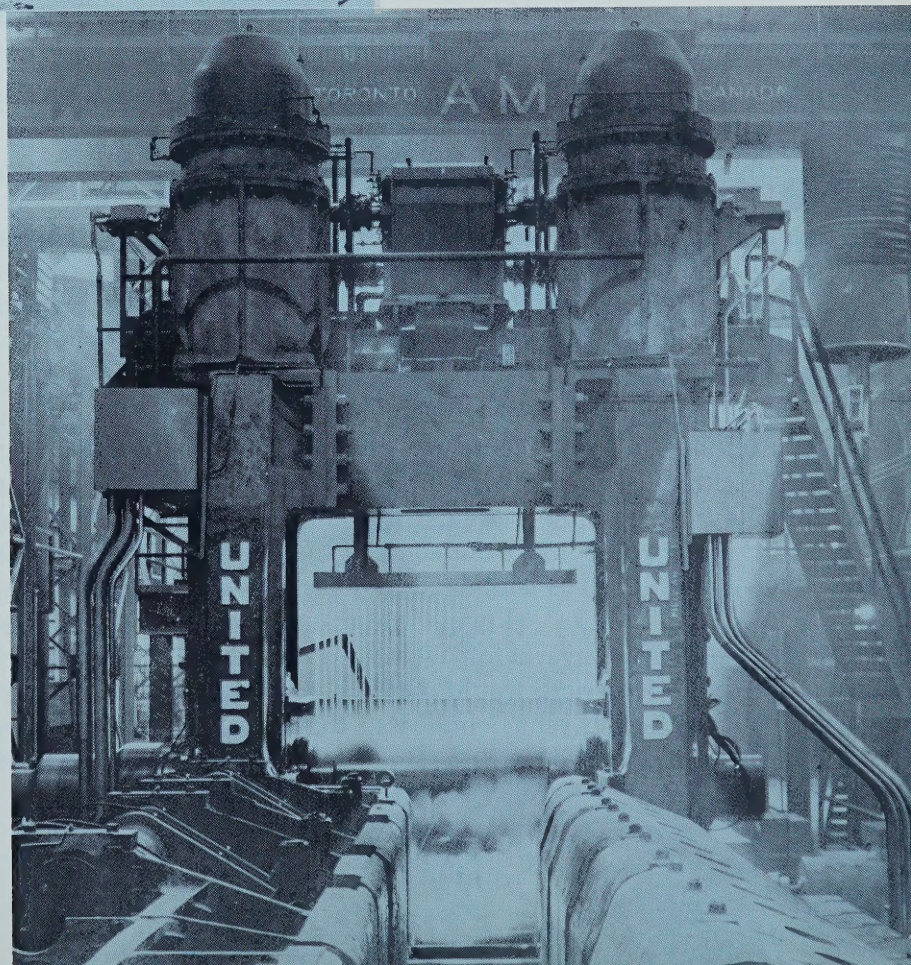
The pipe division during the year processed 17,800 tons of steel producing 3,039,101 feet of steel line pipe. Due to the slowdown in the gas and oil industry, the production at the plant was reduced so as to maintain a balanced inventory. During this period, production rates and quality were stressed, bringing the quality of the product significantly above the specifications required by the American Petroleum Institute.

The steel mill was to have commenced production early in 1960; however, due to delays occasioned by the contractor, completion was delayed until the fall of this year. As the various parts of the plant became operative, production crews were trained and the equipment placed in operation. The takeover of the equipment was as follows:

- (i) MELT SHOP: Operation of the electric furnaces commenced in May. Since that time, crews have been trained and the furnaces are now operating twenty-four hours a day, seven days a week. At the time of writing this report the furnaces had produced 26,000 tons of ingot. During this period of crew training, quality control was emphasized and rigid laboratory and inspection tests were made to ensure a high quality ingot inventory.
- (ii) 2-HI REVERSING MILL: Crew training and testing of this mill commenced in October. Once initial production problems were overcome and crews became familiar with the machinery, this rolling mill proved to be highly efficient, capable of producing at a rate far in excess of our requirements. The mill has



ONE OF THE 32-TON ELECTRIC
FURNACES POURING MOLTEN
STEEL INTO THE LADLE.



THE 2H1 REVERSING SLABBING
AND PLATE MILL ROLLING AN
INGOT INTO A SLAB.

produced quality plate which will be fabricated into tunnel liners for the South Saskatchewan Dam.

- (iii) 4-HI REVERSING MILL: This was the last major item to be taken over from the contractors, and after a very short break-in period the mill has produced skelp to the specifications required for conversion to A.P.I. pipe.

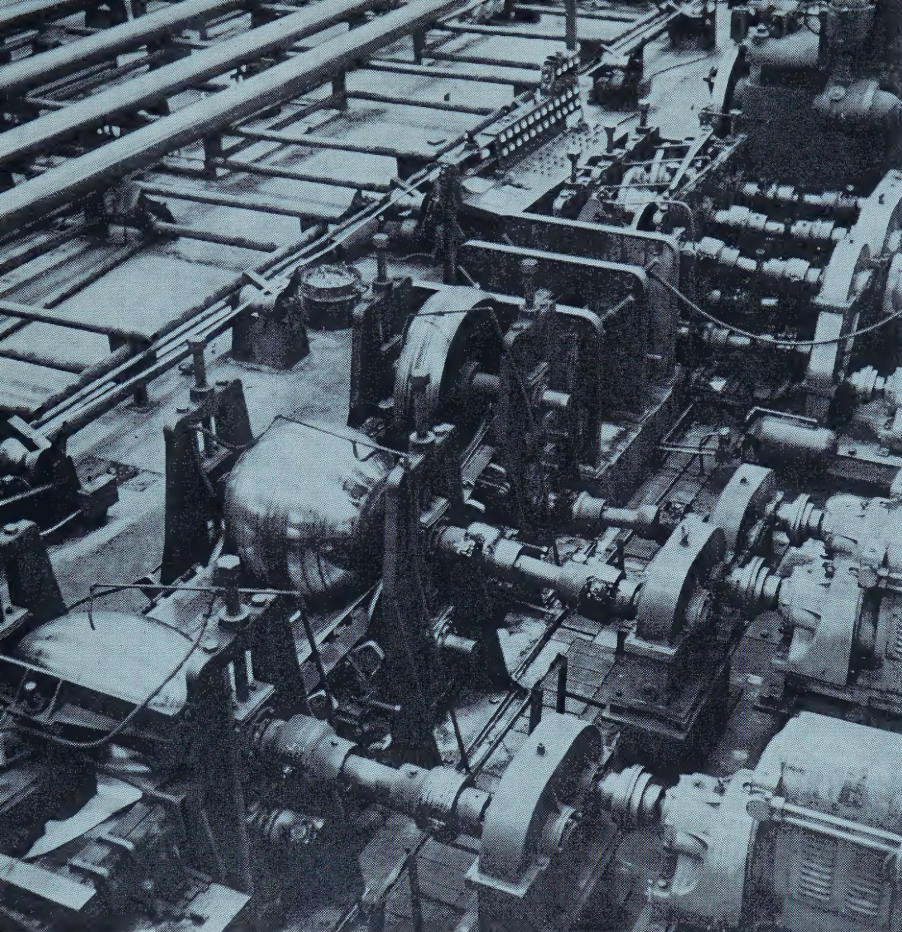
It is expected that with the mill producing quality steel and with the current orders on hand, together with the present forecast of business in the Prairie Basin, the producing facilities of the company will be operated at a level close to capacity for the balance of the fiscal year.

MARKETS

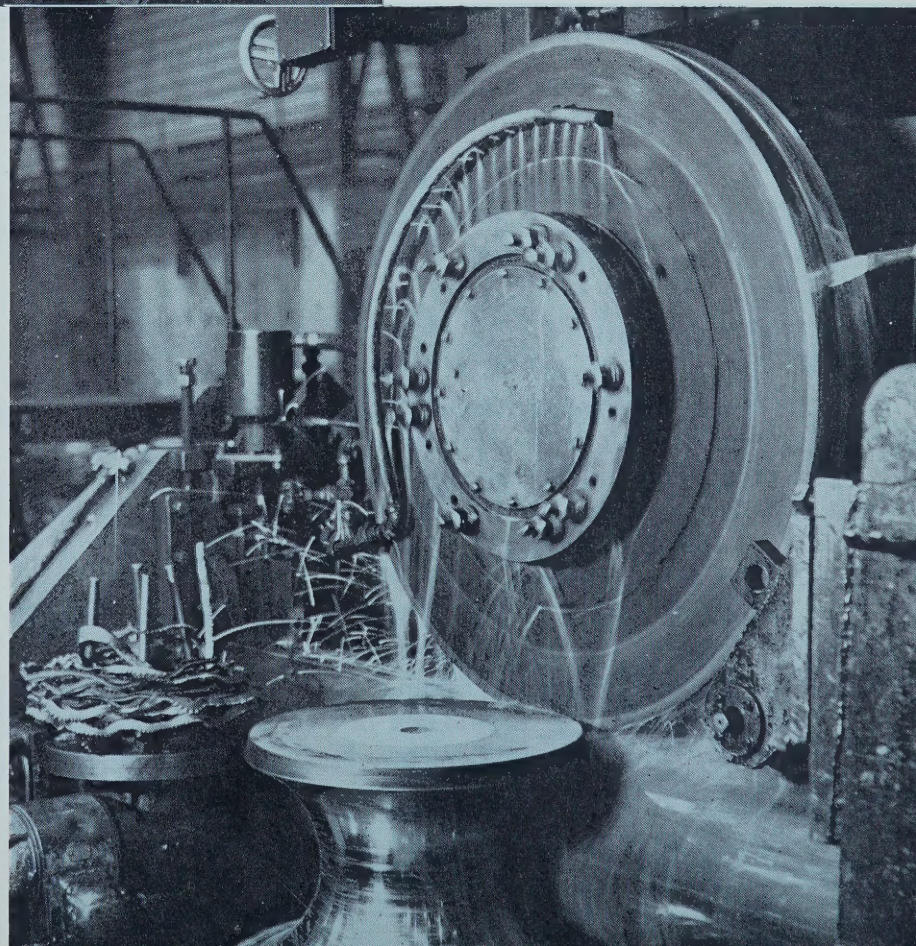
The market for the steel and pipe industry in Western Canada over the past year decreased due to inactivity of the petroleum and natural gas industry. The recent decision by the Government of Canada to export natural gas has given rise to a sharp increase in demand for steel products for the years ahead. The initial impact of this decision gives rise to a demand for 376,000 tons of large diameter pipe line construction in Western Canada over the next three years. In addition to this, there is the increasing demand for small diameter pipe for use in gas gathering and transmission systems required to feed gas into the export lines.

Increased activity in the pipe division servicing the small diameter pipe market will be reflected in a high level of skelp production from the steel division to provide the coiled steel skelp used in pipe fabrication. The construction of large diameter pipe lines for gas trunk gathering and transmission, together with the looping of existing systems over the next three years, will provide extensive markets for the Calgary pipe mill of Big Inch Pipe Corporation Ltd. The plate requirements to the Calgary mill, which will be supplied from the steel division, will provide a volume market for plate over the next several years.

In order to obtain an independent appraisal of the present and future growth prospects of your company, the internationally known firm of management engineering consultants, Ford, Bacon & Davis, of New York, was retained to carry out an evaluation study of the pipe and steel divisions. Included in their investigations was a study of the markets available to the company over the four-year period 1961 to 1964. The results of their studies as contained in a detailed report to the company indicate that the markets available to the steel division during 1961 to 1964 will require a level of production close to capacity. Several important projects not included in their sales forecasts, if undertaken during this period, would increase this figure to a level in excess of the present steel mill capacity. The report indicates that the sales of the pipe division over the four-year period are expected to average 37,500 tons per year. This level of production and sales



FORMING SECTION OF THE
PRODUCTION LINE EQUIPMENT
IN THE PIPE MILL.



THE ELECTRIC RESISTANCE
WELDER IN THE PIPE MILL.

Steel Pipe

in the pipe division will require a skelp supply from the steel division averaging 41,000 tons per annum.

The commencement of the gas export program at this time, with the resultant high level of demand for pipe, plate and skelp, gives every indication that both divisions of the company will enjoy a high level of activity over the next several years. Sales to the normal market for plate sheet and strip will provide significant additional tonnage to the steel division. The rapid development of steel markets in the West has enhanced the economics of the Regina steel mill to a considerable extent over the potential indicated in the original feasibility studies.

EXPANSION PROGRAM

The expansion program to the steel producing facilities, outlined to you in the last annual report, is currently under construction. The Company has entered into a construction contract for the following:

- (1) Installation of a third electric furnace. This will increase the steel production capacity of the Company from 100,000 tons to 150,000 tons of finished product per year. It is expected that this phase of the expansion will be completed by July of 1961.
- (2) Modification to the 2-Hi Rolling Mill. This will enable the Company to increase the width of steel plate to be manufactured from 96 to 113 inches. Plate of this width is used in the manufacture of 36-inch diameter pipe. It is expected that this work will be completed during February of 1961.

The cost of this expansion program will amount to \$1,300,000 which will increase the overall steel producing capacity by 50% while at the same time increase our capital investment by only 9%.

FINANCIAL

Since the contractors were not able to complete the steel mill until after the fiscal year end, the operations of the Company for the year were restricted to the production and sale of pipe. The operations of the pipe division for the year resulted in a net profit of \$582,846. As a result of an Income Tax refund received by the company, an additional \$305,548 has been credited to surplus. Preproduction expenses of the steel division amounting to \$575,010 have been charged off to surplus, leaving a net addition of \$313,384 to the surplus account for this year.

The Company is commencing the next fiscal year with a combined working capital of \$3,757,271. In addition, a line of credit has been negotiated with the Company's bank which will permit the Company to operate at capacity during the next year.

At the time of entering into the original contract for the construction of the steel mill, a surety bond in the amount of \$5,432,000 was obtained. The cost of completing the mill has substantially exceeded the original contract amount. We have, therefore, initiated a lawsuit against the bonding company and the contractor to recover the excess construction costs, interest and damages. The defendants have been served with a copy of the claim and each of them has entered an appearance to the action and have filed Statements of Defence. It is hoped that the case will be set down for trial by spring.

So that the construction program could be completed, a construction loan was obtained from the Company's bankers which will be available to the Company until the lawsuit is finalized. This financing is in addition to the line of credit negotiated for purposes of working capital.

The expansion into the steel industry created many unforeseeable problems. The Board of Directors is grateful for the co-operation and understanding shown to the company during this period by officials of the Saskatchewan Government, the company's bankers and officers of other industries throughout Canada. The company has now resolved these problems, has engaged and trained personnel to operate the steel mill, has completed test runs on equipment and is now in commercial production of steel products.

Your Directors wish to express their appreciation to the officers and employees for their contribution to the progress of the company during the past year.

Respectfully submitted on behalf of the Board of Directors.

J. W. Sharp,
President.

January 3, 1961.



PRAIRIE PIPE MFG CO. LD



INTERPROVINCIAL STEEL
FORMERLY PRAIRIE PIPE
BALANCE SHEET

ASSETS

Current Assets

Cash		\$ 6,531	
Investments at cost (Market value \$9,650.)		9,650	
Accounts receivable — Trade	\$ 930,221		
— Other	214,813		
			1,145,034
Due on disposal of shares of the company arising out of the acquisition of Interprovincial Steel Corporation Ltd.			150,000
Inventories, at the lower of cost or market value:			
Raw materials	\$ 223,399		
Work in process	494,352		
Finished products	942,080		
Scrap	4,996,943		
Supplies	132,771		
			6,789,545
Income tax recoverable		411,555	
Prepaid expenses		269,704	
			<u>17,634,530</u>
Total Current Assets			\$ 8,782,019

Claim Receivable — Note 5.	2,800,965
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Fixed Assets — at cost

Land		\$ 122,157	
Pipe Plant			
Buildings	\$ 263,175		
Machinery and equipment	2,154,096		
	<u>\$ 2,417,271</u>		
Less — Accumulated depreciation	664,558		
			1,752,713
Steel Plant			
Buildings	\$ 1,917,905		
Machinery and equipment	13,841,755		
			<u>15,759,660</u>
			17,634,530

Other Assets

Iron ore property including exploration costs	\$ 152,548	
Unamortized bond discount	236,500	
		<u>389,048</u>

\$29,606,562

The attached notes form an integral part of this statement.

AND PIPE CORPORATION LTD.

MANUFACTURING CO. LTD.

AUGUST 31, 1960

LIABILITIES

Current Liabilities

Bank loan		\$ 2,785,615
Accounts payable and accrued charges		1,352,369
Sales and education tax payable		156,764
Installments on long-term debt due within one year:		
First mortgage loan	\$ 180,000	
First mortgage serial bonds	500,000	
General mortgage bonds	50,000	
		<u>730,000</u>

Total Current Liabilities \$ 5,024,748

Deferred Liabilities — Note 5.

Special loan payable	\$ 1,803,512	
Contract holdbacks	900,992	
Other payables	96,461	
		<u>2,800,965</u>

Long-Term Debt — Note 1 12,615,000

Shareholders' Equity

Capital Stock — Note 3.

Authorized 5,000,000 Common shares without nominal or par value	
Issued and fully paid 2,497,000 Common shares	\$ 7,294,715

Earned Surplus per statement 1,871,134
9,165,849

Approved on behalf of the Board:

J. W. SHARP, *Director*.

J. N. TURVEY, *Director*.

\$29,606,562

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

(Incorporated under the Companies Act of Saskatchewan)

STATEMENT OF PROFIT AND LOSS AND SURPLUS

For the year ended August 31, 1960

Net Profit before providing for the undernoted expenditure		\$ 845,354
Less: Amortization of bond discount	\$ 4,362	
Interest on funded and other indebtedness	184,167	
Legal expense	14,979	
Directors' fees	9,000	
Loss on sale of securities	50,000	
Preproduction expenses — Steel Mill	575,010	
		<u>837,518</u>
Net Profit for the year	\$	<u>7,836</u>
Income tax refundable		305,548
Earned Surplus, August 31, 1959		<u>1,557,750</u>
Earned Surplus, August 31, 1960	\$	<u>1,871,134</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of the Interprovincial Steel and Pipe Corporation Ltd. (formerly Prairie Pipe Manufacturing Co. Ltd.) as at August 31, 1960, and the statement of profit and loss and surplus for the year then ended, and have obtained all of the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. All of the transactions of the company that have come before our notice have been within the objects and powers of the company to the best of our information and belief.

In our opinion and subject to the note attached to the financial statements concerning depreciation the accompanying balance sheet and statement of profit and loss and surplus were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and are properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at August 31, 1960, and the results of its operations for the year then ended, according to the best of our information, the explanations given to us and as shown by the books of the company.

Regina, Saskatchewan,
October 27, 1960.

RIDDELL, STEAD, GRAHAM & HUTCHISON,

Chartered Accountants.

NOTES TO FINANCIAL STATEMENTS

1. LONG-TERM DEBT

	Authorized	Issued	Repaid or Converted	Outstanding August 31/60
Secured by the plant and equipment of the Pipe Division.				
5½% First Mortgage maturing quarterly to December 31, 1962	\$ 900,000	\$ 900,000		
Less — Repaid			\$ 450,000	\$ 450,000
General Mortgage Bonds series A 6% maturing October 1, 1967	1,000,000	1,000,000		
Less — Repaid			150,000	850,000
Unsecured 6% Notes due December 31, 1967	1,000,000	550,000		550,000
Secured by the plant and equipment of the Steel Division.				
4½% First Mortgage Bonds maturing \$500,000 December 1, 1960, and \$750,000 annually December 1, 1961 to 1966	5,000,000	5,000,000		5,000,000
5½% First Mortgage Sinking Fund Bonds maturing December 1, 1973	5,000,000	5,000,000		5,000,000
6% Convertible Sinking Fund Debentures maturing December 1, 1974	1,500,000	1,500,000		
Less — Converted			5,000	1,495,000
	<u>\$14,400,000</u>	<u>\$13,950,000</u>	<u>\$ 605,000</u>	<u>\$13,345,000</u>
Less — Installments due within one year				730,000
				<u>\$12,615,000</u>

2. DIVIDEND RESTRICTION

The deed of trust and mortgage securing the First Mortgage Serial and Sinking Fund Bonds restricts the payment of dividends on common stock if the net working capital of the company is, or by reason of the payment of such dividend would be, less than \$4,000,000.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. CAPITAL STOCK

During the year 1,588,250 shares of capital stock were issued; 7,925 shares for cash and 1,580,320 shares to Interprovincial Steel Corporation Ltd., in discharge of the liability to them of \$7,111,450 incurred in the purchase of their net assets. 357,656 shares are reserved for the issuance upon conversion of the 6% Convertible Sinking Fund Debentures convertible at \$4.18 to December 1, 1961, \$4.50 to December 1, 1963, \$5.14 to December 1, 1965, \$5.79 to December 1, 1967 and \$6.43 per common share if converted after December 1, 1967, and on or before November 30, 1974.

4. DEPRECIATION AND INCOME TAXES

No depreciation has been provided during the 1959-60 year. Profits would be decreased by \$240,198.00 if depreciation had been provided on the pipe plant on a basis consistent with that of the prior year. At August 31, 1960, the steel plant was not in production and no depreciation was provided.

Depreciation has been claimed for income tax purposes in the amount of \$63,198.00. This has resulted in deferring 1959-60 income taxes of approximately \$24,349.00. This difference is applicable to those future periods in which the amounts that can be claimed for tax purposes will be less than the depreciation in the accounts. The accumulated amount by which income taxes have been so reduced, including claims made in 1959-60 on prior years amounts to \$958,000.

5. CLAIMS RECOVERABLE

The steel plant was to be constructed for a fixed price and in order to complete construction the company has had to expend to August 31, 1960, a further \$2,800,965. In addition liens in the amount of \$491,767.00 and payable by the contractor have been registered against the plant. The contractor was bonded in the amount of \$5,432,000.00 and the company has commenced an action against the bonding company to recover the excess amounts.

A guaranteed bank loan has been made covering the excess payments. In the event that payment is required of the guarantor, the guarantor has the option of collecting the amount from the company either in cash or shares to be issued from treasury, the latter at the rate equal to that of the 6% Convertible Sinking Fund Debenture.



EXISTING PIPELINES

EXISTING PIPELINES USING
PRAIRIE PIPE PRODUCTS

OIL AND GAS GATHERING
AND DISTRIBUTION SYSTEMS
IN WHICH PRAIRIE PIPE
PARTICIPATED

ALBERTA

SASKATCHEWAN

MANITOBA

BRITISH COLUMBIA

PRINCE GEORGE

EDMONTON

CALGARY

MEDICINE
HAT

LETHBRIDGE

VANCOUVER

SEATTLE

WEST COAST TRANSMISSION

TRANS MOUNTAIN

INTERPROVINCIAL
PIPELINE

TRANS-CANADA
PIPELINES

SWIFT CURRENT

REGINA

MOOSE
JAW

WEYBURN

PRINCE ALBERT

NORTH BATTLEFORD

LOYDMINSTER

TEDALE

WINNIPEG

BRANDON

EMERSON

